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SUBJECT: PUNJAB WHEAT HARVEST JEOPARDIZED BY CORRUPTION AND LACK OF CAPACITY

REF: A. LAHORE 77

¶1. (SBU) SUMMARY: Corruption and inadequate storage facilities have hindered the Punjab government's ability to take full advantage of a bumper crop of wheat. Many farmers, faced with transportation and bureaucratic hurdles, have chosen to sell their wheat to middlemen, who have pocketed the difference between their rate and the government support price. Punjab Chief Minister Shahbaz Sharif has traveled throughout the province in an attempt to enforce procurement policy, and he told Principal Officer that he expected to fire more civil servants. Shahbaz's political adversaries have warned that a wheat crisis may follow. Government purchasing in Punjab this wheat season amounts to a billion dollar misguided intervention into agricultural markets. END SUMMARY.

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THE CURRENT CHALLENGE
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¶2. (U) Thanks to an abundant harvest, the Punjab provincial government increased its expected wheat purchase from 3 million metric tons (MMT) to as much as 6 MMT April 25. The federal government will acquire an additional 1.5 MMT from Punjab's crop. This season's harvest in Punjab is currently estimated at 18 MMT out of a national total of approximately 23 MMT according to the latest press reports (Note: USDA/FAS estimates 24 MMT. End Note). High government procurement prices may be encouraging farmers to bring more of their crop than usual to purchasing centers. Chief Minister Sharif has been widely quoted as promising to buy "every grain of wheat" that comes to market, and ensuring that farmers receive the official price of PKR 950 (USD 11.82) per 40 kg.

¶3. (U) Newspaper accounts have expressed outrage over a critical shortage of gunny sacks in some Punjab districts this season, in spite of GOP efforts to ensure ample supply. They assert that middlemen are bribing food center workers to gain control over the supply of sacks, then extracting commissions from farmers for providing the sacks and transporting wheat to a procurement facility. Punjab authorities have responded to complaints, taking well-publicized disciplinary action against government agents in Dera Ghazi Khan, Sheikhpura, Sahiwal, and Multan. In Multan, purchasing center workers reacted to the arrest of their colleagues by going on strike, closing down a dozen procurement locations for more than a day, prompting still more complaints from growers. In a mirror image of last year's political squabble over responsibility for insufficient wheat stocks, Chaudhry Pervaiz Elahi, Pakistan Muslim League-Quaid-e-Azam

(PML-Q) Punjab President and a political opponent of the Pakistan Muslim League-Nawaz (PML-N) Sharif brothers, alleged last week that the mismanagement of the current PML-N Punjab government would lead to a wheat crisis in the coming months.

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CHIEF MINISTER CONSUMED BY WHEAT
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14. (SBU) Punjab Chief Minister Shahbaz Sharif told Principal Officer May 2 that he has traveled throughout the province in an attempt to ensure that farmers receive the "full benefits" of the government procurement policy. He related that surprise visits to purchasing centers in Multan, Sheikhpura and Sahiwal have resulted in arrests, including a Food Inspector in Sahiwal who had enjoyed the protection of a sitting Member of the National Assembly. "These are mafia," he claimed, and said that he expected to fire more civil servants as he continues his inspections. "The Food Department is part of the problem, but also part of the solution," he explained. He added that he has directed the conversion of several outdoor areas to house the surplus wheat, and denied that Punjab faced a shortage of storage (Note: According to the Associated Press of Pakistan, on May 5 the Punjab Food Department announced its intention to rent private, covered storage facilities to hold wheat during the ongoing procurement season. End Note).

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GOVERNMENT TRIES TO CONTROL THE WHEAT MARKET...
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15. (U) Pakistan's national and provincial governments control wheat markets by setting prices, regulating shipments, and

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operating a monopoly procurement system. The federal acquisition agency and import and export manager is the Pakistan Agricultural Storage and Services Corporation (PASSCO), and the Punjab buying authority is the Food Department. The Punjab Food Department claims to have 389 purchasing centers, in order to be accessible to growers and minimize the need for middlemen services. PASSCO has a much smaller presence because of its limited buying, and it is based almost entirely in Punjab.

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...AND SOWS THE SEEDS OF CORRUPTION
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16. (SBU) Farmers who bring their crop to a government purchasing center have long complained of being forced to sell their crop below the government price, as indicated by press coverage each season. Government agents take advantage of the farmers' urgent need to sell and allegedly pocket the difference between the official wheat price and the amount actually paid to the farmer.

Wheat growers also accuse officials of colluding with middlemen, most often by selling them the gunny sacks intended for farmers to bring their crop to a purchasing center. The middlemen then charge farmers a commission of five to fifteen percent for providing the sacks and transporting the wheat to market. Several provincial agriculture officials and academics corroborated these criticisms in recent interviews with Econoff (REF A). However, Muhammad Ashfaq, Professor of Agricultural Economics at the University of Agriculture, Faisalabad, acknowledged to Econoff April 17 that middlemen also satisfy a legitimate need in cases where farmers genuinely lack access to credit, storage facilities, and transportation.

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PUNJAB CHIEF MINISTER IS TRYING TO IMPROVE EMPLOYEE CONDUCT
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17. (U) The Punjab government has established complaint centers this season to address any alleged improprieties in the procurement process. Press reports say that Chief Minister Sharif and Punjab Food Secretary Irfan Elahi have disciplined "dozens" of Punjab Food Department agents for failure to follow

procedures and for colluding with middlemen. In the latest enforcement action, announced at a surprise inspection of a district Food Department purchasing center on May 2, the Chief Minister suspended the District Food Controller and the entire staff of two procurement facilities in Dera Ghazi Khan. After a similar surprise inspection in Sheikhupura April 27, he ordered the arrest of the local Food Department staff and suspended the District Food Controller for negligence. On April 25, the Punjab government directed employees from other departments to take over several purchasing centers in Multan district after workers there went on strike to protest the arrest of two Assistant Food Controllers on charges of corruption. A dozen locations were shut down for more than a day by the strike, and press accounts said that middlemen stepped in to purchase wheat at PKR 900 (USD 11.20) per 40 kg (five percent below the government price), as farmers were uncertain how long the procurement centers would be closed.

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FACILITIES AND FUNDING IN A DREADFUL STATE
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¶8. (SBU) In addition to corruption, the government procurement agencies in Punjab suffer from inadequate facilities and insufficient funding. In an interview with Econoff on April 16, Major General Anwar Saeed Khan, Managing Director of PASSCO, maintained that his agency had only 430,000 metric tons of storage capacity, and that 80 percent of this was outdoors. USAID built PASSCO's concrete and block silos 25 years ago; PASSCO has no modern steel silos at all. Khan said the lack of storage made it difficult to handle federal wheat purchases each season, and impossible for PASSCO to maintain the strategic wheat reserve mandated in its charter. Elahi described the Punjab Food Department infrastructure in nearly identical terms in an interview with Econoff on April 1. Both men complained about "decades of neglecting to invest" in facilities for bulk storage and handling of wheat.

¶9. (U) A lack of operating capital also hinders the government's capacity during wheat buying season. The Nation newspaper

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estimated that PASSCO and the provincial food departments would need a PKR 60 billion (USD 746 million) credit facility to cover the cost of wheat purchases this season, assuming Punjab would only buy 3.5 MMT, which the article claimed would be financed by commercial banks. Punjab's ability to buy as much as 6 MMT depends on additional funding from the federal government.

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A BILLION DOLLARS MISSPENT
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¶10. (SBU) COMMENT: Government efforts to manage wheat markets are driven by politics not sound economics. This is especially true in Punjab, Pakistan's most critical wheat growing region. As Anwar Saeed Khan put it, wheat policy consists of more than agriculture or even national food security; it is an "emotive" issue in Pakistan. It is also very expensive. At PKR 950 per 40kg, Punjab's original target of 3.5 MMT would cost more than PKR 83 billion (USD 1.04 billion). PASSCO's target of 1.5 MMT purchased from the Punjab harvest is worth an additional PKR 35.6 billion (USD 443 million). The high support price has also driven an increase in the cost of flour mill subsidies. Little or no distinction is made between businessmen who provide a legitimate service at a fair price, and those "entrepreneurs" who engage in profiteering or who simply steal. The exploitation (licit or illicit) of the system's inherent weaknesses further erodes the effectiveness of already dubious public policy, and in particular undermines the effort to boost farm household incomes through wheat price supports. Punjab's steps to hold Food Department officials accountable for abusing their positions is welcome, but does not get to the heart of the problem: the flawed system of set prices and subsidies that encourage corruption in the first place. Punjab desperately needs massive investments in bulk handling and storage

facilities to get the most out of its wheat harvest, but PASSCO
and the Food Departments procurement monopolies are the wrong
platform for rural development. END COMMENT.
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